Medicare Program Basics

Medicare is the nation's second largest social welfare program, exceeded only by Social Security. In FY2003, the program will cover an estimated 34.6 million aged persons and an additional 6.3 million disabled individuals.

Medicare comprises two programs: Part A (primarily hospital services) and Part B (primarily physician services). Almost all persons over age 65 are automatically entitled to Medicare Part A (Hospital Insurance or HI). Part B (Supplemental Medical Insurance or SMI) is optional.

Medicare's benefit design has remained largely unchanged since its enactment in 1966. The program does not cover prescription drugs, preventive care services, disease management and catastrophic hospital costs. Seniors do not have unfettered access to their choice of physicians. About 75 percent of seniors have prescription drugs coverage through supplemental insurance such as employer-sponsored plans or Medicare Plus Choice.

Approximately 14 percent of Medicare beneficiaries receive subsidies (premium, deductible or co-pay waivers or cost shares) through Medicaid or related programs benefitting low-income seniors.

Medicare Budget and Financing Basics

The FY 2004 Budget Resolution assumes $266 billion in Medicare spending authority in FY 2004. It assumes spending will ***almost double*** in the next ten years, reaching $526 billion in 2013. The Budget assumes a total of $3.868 trillion in Medicare spending over the next 10 years.

The Budget provides a $400 billion reserve fund to improve access to prescription drugs for all beneficiaries and to strengthen and modernize the program.

Part B is financed by a 75-25 combination of general tax revenues and monthly premiums paid by current beneficiaries (currently $58.70/month).

Part A is financed by current workers and their employers through a payroll tax of 2.9 percent of ***all income*** (this differs from Social Security, which is a tax on a capped portion of income - ie: 12.4 percent up to $87,000 in 2003).

Medicare Trustees project in their 2003 annual report that in 2012, income from the Part A trust fund will be insufficient to pay benefits and in 2026 the trust fund will be entirely depleted.

Over the next 75 years, the difference between expected revenue and anticipated benefit payments result in a ***$13 trillion shortfall*** - that is nearly two times the recently increased debt ceiling ($7.4 trillion) and nearly three times the anticipated shortfall within Social Security over the next 75 years ($4.6 trillion).

Paying for that difference would require ***nearly tripling payroll taxes*** from 2.9 percent to 8.1 percent.